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The "Bottom Line" in Corn Production

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The Bottom Line in Corn Production is one of a series of pamphlets intended to provide Indiana's citizens with information about the agricultural food production, processing and marketing system which supplies our huge variety of safe and nutritious food on a daily basis.

Source of data: U.S. Dept. of Agriculture statistics

than in the difficult late 1960s. Recently, an economic forecaster indicated that he felt the real price of corn would increase gradually in the years ahead. A farmer in the audience, however, summed up the situation well. He asked, "O.K. for the price of corn! But what will be my bottom line? Will it keep up with my costs?" Now all we can say is, "It hasn't done so well the past several years!"

farmers do much better, some far worse. The same goes for average yields. And certainly some farmers receive better prices than the yearly average; some, of course, receive less. With all these limitations, however, the main conclusion remains valid: With the help of substantially improved yields, the real per acre returns to labor and management from corn production is only slightly better

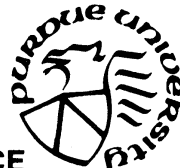
ABOUT FARMS & FARMING

EC-535

THE "BOTTOM LINE" IN CORN PRODUCTION

by R. L. Kohls, Department of Agricultural Economics

**PURDUE UNIVERSITY • COOPERATIVE EXTENSION SERVICE
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What does it cost Indiana farmers to produce a bushel of corn?

Purdue Economists estimate that it will cost \$3.10 a bushel in 1981. These estimates are tied to a 400-800 acre corn-soybean farm that would yield 115 bushels of corn per acre. The breakdown of these costs is as follows:

Direct Costs	Percent	Indirect Costs	Percent
Fertilizer, lime	14	Field machinery	11
Seeds, chemicals	7	Drying, storage	10
Machine operation	11	Land costs	31
Interest on operating capital	7	Labor, management	10
	<hr/> 39		<hr/> 61

If corn is grown, the direct costs (39 percent or \$1.21 per bushel) will be spent. The remaining 61 percent or \$1.89 per bushel are allocated to machinery and facility depreciation, land costs, and returns to labor and management. Full coverage of these costs might be "passed" in any given year. However, such indirect costs over time must also be covered if corn is to be produced and the farmer is to stay in business.

Some of these cost estimates are on the conservative side. Land is charged at the cash rental level—considerably below a going rate of interest on current land values. Labor rates are carried at \$5.50 an hour and management at \$15.75 an acre—certainly not exorbitant rates by nonfarming standards! (The average hourly earning in nonagricultural employment at the close of 1980 was \$6.90).

The production costs per bushel are about three times the level of 1967. Over three-fourths of this increase has occurred since 1973 as general inflation in our economy has become an ever-increasing problem.

How have returns to the corn farmer fared over these years?

Let's take the allocated labor and management charges out of the estimated costs. Let's further assume the farmer had yields equal to the average for the state and sold his crop at prices equal to the average price for the year. The differences so calculated would be a per acre return that the farmer received for both his labor and management.

Farmers also face the same cost-of-living problems as do their urban neighbors. They must buy their food, clothing and other items at the same places. To measure real purchasing power returns, let's convert the data to 1967 dollars.

Average Returns per Acre of Corn Production for Labor and Management

	Current dollars	1967 dollars
1966-1970	15	14
1973-1975	104	70
1976-1980	32	16

How sweet the memory of the 1973-1975 years is! Market prices increased far more rapidly than costs. Real returns were five times better than they were in the difficult late 1960s.

The picture changed sharply, however, during the last half of the 1970s. During these years the market price of corn averaged 9 percent below 1973-1975; costs averaged 40 percent above 1973-1975. Average yields per acre during this latter period were 16 bushels per acre higher than in 1973-1975. Even with these improved yields, the real earnings per acre were only \$2 per acre higher than in the late 1960s.

Of course, almost anyone can quarrel with the accuracy of these data. Few have "average" costs; some